

## PERFORMANCE-BASED CONTRACTING APPROACHES

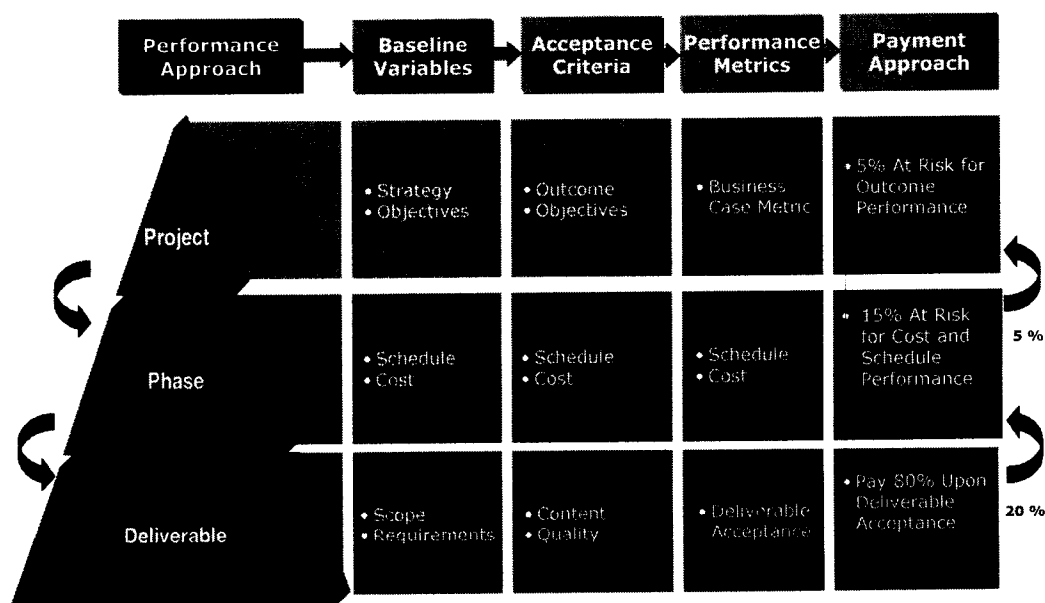
**NOTE TO DoD BPA USER:** This Attachment C has been developed to provide guidance, education and a starting point for programs that wish to engage a systems integrator using a performance based service contract. The approaches and any terms that may be contained herein are a baseline from which your program may negotiate and develop performance based payment structures after negotiation with the BPA holder.

### C.1 Overview

Performance-Based Service Contracting (PBSC) allows the DoD to define meaningful incentives that align activities and actions with Program goals and objectives.

### C.2 Pricing Structures and Approaches

The chart below establishes a framework for further development of a performance-based price. A specific approach will be developed with the customer when the actual task order defines the business case objectives, budgeted costs and timelines. The framework is a Three Tier (e.g., Project, Phase, Deliverable) structure as illustrated in Fig C.1 below.



**Figure C.1 Performance Based Approach**  
*Ties pricing to the achievement of Government operational goals and metrics*

The purpose of this Three Tier approach is to provide an integrated approach that links project objectives, cost, schedule and deliverable acceptance to payment. To make the approach effective, a performance payment approach based on defined project variables, confirmed deliverable acceptance criteria and an agreed payment schedule is suggested.

- **Baseline Variables** – dimensions that are relevant for evaluating deliverables as well as phase and project completion. These variables support the development of acceptance criteria. For example, when requirements are defined for a data migration plan it is then possible to determine whether they have been met through inspection or testing.

- **Acceptance Criteria** – these criteria are the basis for determining that payment can be made. It is possible to expand these criteria to a “meets”, “exceeds” or “below expectation” grade that could be used to add incentives or deduct penalties within a specific tier. This should be tailored to the specific needs of the task order.
- **Performance Metrics** - Performance measurement is a critical component of project management and implemented system performance. The specific performance measurements change based on project “level”, or tier, and task order. At the deliverable level, performance measurements include: deliverable acceptance (including content and quality of deliverables). At the phase level, performance measurements include: task order schedule and cost, and accumulated assessment of quality. At the overall project level the performance measurements include: performance against business case metrics and key performance indicators (KPI's) (e.g. asset utilization, inventory turns, repair turn around), user acceptance, and transition to operations. Specific performance measurements shall be tailored for each specific Task Order.
- **Payment approach** – For each DoD BPA Task Order a payment schedule will be proposed based on the project plan and in-scope deliverables. Deloitte offers a holdback of 20% (e.g. 80% payment upon deliverable acceptance, 15% deliverable payment hold back to phase reviews, and 5% phase hold-back to project review) of professional fees. As illustrated in the tier descriptions below, this equates to putting 100% of the fixed fees at risk.

Each DoD BPA Task Order is likely to be unique and the Baseline Variables, Acceptance Criteria, Payment approach and performance based incentive structure will need to be defined and understood at the beginning of each Task Order and monitored during phase and project reviews.

### C.2.1 Project Performance (Tier 1)

At the project level (Tier 1), Deloitte will work with the customer to understand and help define overall objectives for the project to achieve. Project objectives may include:

- Reduction in time duration to perform certain tasks
- Reduction in cost or effort to perform certain tasks
- Elimination of the need to perform certain tasks
- Ability to allocate human resources to higher value activities in lieu of old duty performance
- Ability to standardize processes
- Attainment of new skills by client (DoD) personnel

Upon the completion of each project, a project review will be conducted to assess the achievement of project outcomes and objectives. During the project review, lessons learned will be collected for future DoD ERP Services BPA projects.

### C.2.2 Phase Performance (Tier 2)

At the phase level (Tier 2), Deloitte and the customer will agree to the project schedule and cost plan. The schedule will establish dates for phase completion and the budget for the phase, the attainment of which will trigger the payment of the phase holdback amount. Phase completion assumes that deliverables for that phase are completed and have been accepted. Deliverables may be added or deleted from a phase subject to cost and schedule adjustment.

Deloitte will use an Earned Value Management approach to support monitoring and to communicate progress that is relevant to phase performance.

### **C.2.3 Deliverable Performance (Tier 3)**

At the deliverable level (Tier 3), Deloitte and the customer will establish appropriate acceptance criteria for each deliverable or thread class of deliverables.

Upon acceptance of each deliverable the DoD will pay 80% of its agreed upon price. Most acceptance criteria are based upon establishing a standard for a type of deliverable, the standard will be established by submitting samples to the DoD in advance of the deliverable's development. Agreement and acceptance of the standard establishes clear expectations which should prevent miscommunication and rework and can be further leveraged for both communication and training purposes.

### **C.3 Government Responsibility**

At the beginning of each Task Order, the government's responsibility is to clarify project variables including strategy, objectives, and scope. Additionally, the government will work with Deloitte to define the appropriate performance options noted above and performance metric targets to track during monthly status reports.

During the project, the designated Contracting Officer Representative (COR) will review, monitor and accept deliverable. At the beginning of the project, the COR should review sample deliverable formats and agree on the deliverable acceptance criteria. Deliverable review and acceptance should not take more than 5 business days, however actual review and acceptance periods will be set by the customer and Deloitte at the Task Order level.

Upon completion of each phase the Government should participate in Phase reviews to provide lessons learned, review project metrics and performance agreements.

Upon completion of a project, the Government should participate in a Project review to provide overall Task Order lesson learned, review project metrics and performance agreements.

Throughout the project, the DoD Executive Advisory Board, Contracting Officer, DoD Program manager, DoD Deputy Program Manager (if assigned) should participate and/or review monthly status reports and quality review sessions to stay abreast with Task Order progress and performance.

Other responsibilities of the Government include:

- 100% Dedicated core team participation
- Subject mater experts for legacy systems and DoD processes
- Prompt issue resolution when raised to the government's attention sufficient to prevent negative impact on schedule
- Availability of existing policy and procedure documentation as well as updating standard policies that may change
- Execution of all testing, interpretation of test results, and testing acceptance
- Installation and maintenance of all hardware and infrastructure to support the technical design unless otherwise contracted for from Deloitte
- Cleansing and transforming all legacy data prior to loading to the new system
- Validation of process and sub-process security, administering security, and providing any existing security documentation to support legacy environments as well as updating legacy documentation if necessary
- Government core project team members will attend training as appropriate for their role on the project
- Government trainers will deliver the end user training following a "Train the Trainer" approach.

- DoD will provide sufficient facilities with the necessary connectivity to house the project team and end user training classes unless otherwise contracted for from Deloitte
- End user training coordination, scheduling and make up scheduling will be done by government personnel
- Prerequisite education such as basic PC skills and MS Windows training is provided by the government to its employees.